

Jaakko Toivola

# Management Consulting

Helsinki Metropolia University of Applied Sciences

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Author(s)	Jaakko Toivola
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<p>Management consulting has long roots that reach all the way to the 19<sup>th</sup> century. First known as efficiency experts, they worked to improve efficiency on the shop floor level. Quite soon after, management consulting started to evolve in to a industry challenging the traditional industries. Today, the main purpose of management consultancies is to study and analyze the structure and functioning of a company as a whole or part of its segments and to find opportunities and strategies to improve the company's efficiency in the management level.</p> <p>The thesis aims to illustrate how management consulting has evolved over the years, how do the client and consultant communicate with each other, how to make consulting engagements as successful as possible and what problems might rise when dealing with management consultancies.</p> <p>The study was carried out by analyzing a number of different literature sources and by assembling the information into a form that would allow the reader to look directly into the client-consultant interaction. All the presented information aims to help the understanding of management consulting and the practical issues revolving around it.</p>	
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## Content

<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>2. ORIGINS OF MANAGEMENT CONSULTING.....</b>	<b>2</b>
<b>3. DEFINITION OF MANAGEMENT CONSULTING. ....</b>	<b>4</b>
<b>4. MANAGEMENT CONSULTING AS AN INDUSTRY.....</b>	<b>6</b>
<b>5. THEORIES BEHIND MANAGEMENT CONSULTING .....</b>	<b>7</b>
5.1 MANAGEMENT FASHION.....	7
5.2 GENERAL FASHION THEORY .....	8
5.3 TRANSACTION THEORY .....	9
<b>6. MANAGEMENT CONSULTING IN PRACTICE .....</b>	<b>11</b>
6.1 CONSULTANTS ACTIVITIES.....	11
6.2 SELECTING A MANAGEMENT CONSULTANT.....	12
6.3 GAINING VALUE FROM MANAGEMENT CONSULTANT .....	15
6.4 MANAGING THE CONSULTANCY PROJECT.....	17
<b>7. PROBLEMS OF MANAGEMENT CONSULTING.....</b>	<b>18</b>
7.1 ACCENTURE AND THE FINNISH PATIENT INFORMATION SYSTEM.....	19
7.2 FINNISH TRANSPORT AGENCY .....	21
7.3 AT&T AND THE PRICE OF ADVICE .....	22
<b>8. CONCLUSION.....</b>	<b>24</b>
<b>REFERENCES .....</b>	<b>26</b>

## 1. Introduction

Despite that consulting industry has been growing rapidly over the last few decades, there is not much written information about it, when compared to other industries. Management consulting as a topic is quite current, as the industry continues to grow and make profit even in economically hard times. Even so, not everyone can deal with the long days and constant travelling. The turnover rate is high and some people come to work in the industry just for a while before they gain the sufficient experience how to manage companies. After a while many establish their own companies or get hired by their client companies.

The somewhat suspicious nature of management consultancies inspired me to dig deeper in to the industry. Another reason for taking this topic under research was my internship in a Management Consulting company. I wanted to learn where management consulting originates, how the client-consultant interaction works as a whole and what problems the consulting industry has brought with it. Management consulting is an issue that can be hard to grasp, as most of the activity happens behind “closed doors”. Especially the practical side can be hard to grasp, unless one has been part of the consulting process, and still it might be difficult to put the whole consulting “event” in to words. The goal was to achieve better understanding of these issues related to management consulting. Furthermore, by covering some theories that shed light on the reasons why management consulting as a profession can even exist, it was possible to dig even deeper. On the other hand, Management consulting is an enormous topic, if the intention is to cover in its full extent. As a result it was necessary to focus on the issues, that I personally found interesting and helpful.

The study was carried out by using multiple literature sources and combining the most useful and appropriate information together. By doing this I was able to bring out more focused and relevant issues. Perhaps, this way of doing it brings out another, unseen perspective of the management consultant industry, methods and problems.

## 2. Origins of management consulting

A Large scale managerial enterprise originates from the last half of the 19<sup>th</sup> century. Almost from the day of establishing a business, managers in enterprises asked for outside help from different directions. These actors ranged from advertising agents to bankers who provided such services initially on ad hoc basis. It was clear that consulting managers had become a business activity that could be carried out for financial gain, especially with the development of scientific management. (Curnow, B & Reuvid, J, 2003: 22.)

Early management consultants were known as industrial engineers or efficiency experts. (Curnow, B & Reuvid, J, 2003: 23.) One of them was Fredrick W. Taylor who developed a new approach at the end of 19<sup>th</sup> century, for the management of his workers on the shop floor. He presented his ideas in a meeting to his colleagues and in a number of different publications, including his book *The principles of Scientific Management* that was published in 1911. Furthermore, Taylor started to install his systems for a fee in number of different companies. (Curnow, B & Reuvid, J, 2003: 22.) Another pioneer and perhaps the most successful in the field of management consulting was a French immigrant Charles E. Bedaux who established his consultancy in the American Midwest in 1916.(Curnow, B & Reuvid, J, 2003: 23.) Bedaux developed a system that measured the average rate work based on how many items were produced in one hour. Any items produced in excess of that number earned the workers a bonus. (Newitt, N, 2004.)

According to the National Industry Conference Board, Bedaux system was the most popular method of payment-by-results in the USA. Bedaux's American clients included many well-known firms, such as General Electric, BF Goodrich and Eastman Kodak. From 1926 onwards Bedaux expanded to Europe and other parts of the world. The Second world war was a particularly good time for expansion as fast improvements for efficiency was needed. In 1956 Management Consultants Association (MCA) was founded and in 1961 MCA estimated that total revenue of its member firms had increased by 10 per cent per annum over the previous decade. It was clear that management consulting was becoming a recognizable industry that would challenge the traditional manufacturing industries in size. (Curnow, B & Reuvid, J, 2003: 23-24.)

Starting from the fifties many consultancies transformed their activities, without losing their main focus on efficiency enhancement. At this time, the emergence of more advanced approaches were taken in to use. One of them was Methods time measurement (MTM), invented by Harold B. Maynard who stated that: *"It allowed managers to establish optimum motions and "normal" times under laboratory conditions rather than on the shop floor"*. However these kinds of consultancies were getting dealt with a new generation of service providers that focused on organization and strategy within corporations. (Curnow, B & Reuvid, J, 2003: 23-24.)

During the 1930's a second wave of management consultancies emerged in the USA. The rise was due to the changes in size and structure of companies as well as due to changes towards more competitive market environment. Many US companies started to develop decentralized organizational structures, known today as multidivisional forms. Each division was quite independent and coordinated by a head office. Consultants started to spread the multidivisional form and all other kinds of services to the top management of new corporations in the USA. Among these first movers were, BoozAllen & Hamilton and McKinsey & Company. When the founder of McKinsey & Company, James McKinsey, died in 1937 the company split between the two offices in Chicago and New York. They agreed not to compete with each other. The split was officially concluded when the New York office bought the rights to the McKinsey name. This removed any competitive restraints between the two. The Chicago office changed its name to AT Kearny, after its senior consultant Andrew Thomas Kearny who was leading the Chicago office at the time. McKinsey & Company grew quite fast and in the 1960s it had surpassed scientific management consultancies and the first movers that started at the same time as McKinsey & Company. The success of these new generation consultancies triggered a number of spin-offs from the existing consulting companies similar to Bedaux. The end result at the change in the organization and management within the companies was that Accounting and IT firms started to compete with organization and strategy consultancies in the 1980s. (Curnow, B & Reuvid, J, 2003: 24-26.)

IT had become more and more crucial for management and therefore for management consulting. It allowed fast expansion of a third wave of consultancy services. The shift seems to be quite similar to the move from shop-floor efficiency to organization and strategy. Starting from the late 1970's large, and well-diversified corporations came under pressure, due to the arrival of new competitors from Japan and other Asian

countries, which had more focused structures. Furthermore, the increasingly global financial markets forced companies to focus on their core competencies and adopt more efficient management structures. That is why, communication and coordination with companies, suppliers and customers had become critical competitive advantage. Moreover, the role of the managers had changed towards focusing more on management of the value chain and to internal and external relationships and less on corporate organization and strategy. The development of IT had enabled managers to gain necessary data in order to maintain control over such a networked organization. The first consulting firms to take advantage of these new opportunities in a form of establishing new separate units were large Anglo-American accounting firms. For these accountancies, most of the growth in consulting services was a result from the IT-related assignments that they had been doing before. This meant that they gained competitive advantage as they were among the first to become familiar with large-scale IT systems due to the fact that accounting had increasingly relied on IT. On top of that audits that were and are, legal requirement and quite guaranteed source of income, were easy entry for the consultancy divisions of accounting companies. Even so, this guaranteed source of income was also source of conflict of interests. Audit companies were not always keen on introducing colleagues from their consultancy divisions as they were seen as a threat to the future revenues if the consultancy division was to fail in their assignment. This led to tensions and even to splits between the accounting and consulting divisions in big corporations. Even with the risk of conflict of interests, many big IT organizations started to expand to consulting through acquisitions. For example Electronic Data Systems acquired one of the oldest consulting firms, AT Kearny in 1995. Furthermore, Hardware and software manufacturers like IBM and Gap Gemini also expanded to consulting business as it was seen that consulting had higher profit margins than their traditional business. (Curnow, B & Reuvid, J, 2003: 24-29.)

### **3. Definition of management consulting.**

Consulting in general is an intangible service, which shows little to the client as most of the time goes to preparing and designing the possible solution. The customer purchases knowledge, skills and services which it does not have itself or does not want to invest time in to, as they are not its core functions. Sometimes the purchased object can be a solution for a problem or technical knowledge of the consultant. The knowledge

the consultant brings to the company is needed to achieve change. The consultant analyses the company's current situation and based on that information the consultant gives suggestions on what should be done or in most cases they execute these operations. (Koivuranta-Härkönen, 2010: 4.)

Management Consulting refers to the process in which consultant studies and analyzes the structure and functioning of a company as a whole or part of its segments, to find opportunities and strategies to improve the company's efficiency in management level. There are at least two official definitions of management consultancy. Management consultancy association (MCA) has defined after a long international debate, that management consulting is:

“Management consulting is the creation of value for organizations, through the application of knowledge, techniques and assets, to improve performance. This is achieved through the rendering of objective advice and/or the implementation of business solution” (Curnow, B & Reuvid, J, 2003: 64-65).

International Council of Management Consulting Institutes (ICMCI) definition that states:

“The service provided to business, public and other undertakings by an independent and qualified person or persons in identifying and investigating problems concerned with policy, organization, procedures and methods, recommending appropriate action and helping to implement those recommendations.” (Curnow, B & Reuvid, J, 2003: 17.)

In other words, management consultants give guidance to those who have management responsibility in certain fields of activities, inside businesses and non-profit organizations. A consultant is a person, who is often outside the organization that is being guided, that helps the organization with special knowledge to achieve competitive advantage or something that moves the company forward, that could not be achieved without the help of the consultant. (Curnow, B & Reuvid, J, 2003: 17.)



#### 4. Management consulting as an industry

Global consulting industry revenues (including HR, IT, strategy, operations management and business advisory services) in 2010 were \$345 billion (Plunkett Research, Ltd 2011). The share of management consulting industry was around \$154 billion. (IBISWorld, 2011) Until recently, the UK and US combined have been accounting for more than half the world market and together with Western Europe a full two-thirds of the total industry market. Even so, these are mature markets. The fastest growing market is the market considered as “rest of the world”, including Central and Eastern Europe, Asia Pacific, Latin America and Africa. The big consultancy firms account for half of the total market revenue while representing one-third of the employment. Yet, most of the consultancy firms are small, as two-thirds of consultants work in companies with less than 10 people. (Curnow, B & Reuvid, J, 2003: 10.) Consultancies belong to a group of firms considered as knowledge based companies. They have quite little financial capital thus relying on their main asset: knowledge and competence of their personnel. Due to this reason, hiring competent personnel has become one of the most important tasks for management consulting firms. High competition in the consultancy employment market, has led to a situation where consulting companies need a permanent inflow of young personnel to replace the outflow. (Kipping M., 2002: 6)

In Finland, according to Helsingin Sanomat (HS) in 21.10.2012 consulting business has grown steadily in the last few decades. Just between the years 2006 and 2009 people working in the management consulting business has grown by 41% and the revenue of the companies functioning in the industry has grown by 37%. Even with the current recession, the future of management consultancies seem bright. According to the chairman of the board of directors of Management Consultants registered association, Pekka Kurvinen, the growth of management consulting industry is the result of change in the attitudes of decision makers. Before, the main assumption among businesses was, that everything should be done inside the companies, without any help from outsiders. The New generation managers are not pretending to know how to do everything by themselves, but are more willing and open to use external resources such as consultants. For example, by using consultants the company does not need a business development division and can focus on its core competencies. (Pystynen, V, 2012)

## 5. Theories behind management consulting

It is important to cover a few theories in order to understand why management consulting exists and why some management theories become more popular than others, despite the fact that the other method might be more proven. Theories are the base for all management consultant engagements, as they provide the floor on which different applications can be built.

### 5.1 Management Fashion

Management consulting industry is heavily growing. Management fashion market, which includes management books, magazines and such are blooming too. It has been recognized that these two markets correlate with each other. Can management consultants decorate their management concepts in order to make them successful, in other words create management fashions?

Management concept is a discourse that evolves around certain "main words" like Fordism, lean production or scientific management. Whereas Management concept that gains large share amount of discussion and discourse among the public management, are called management fashions. Consultancies are the main makers and promoters of management concepts. They are always trying to commodify them due to the fact that commodified products have better chances of attracting clients. Commodification means that consultancies alter unstructured problems and solutions to standardized models, which are easier to mold in to products, which are easier to sell to clients, as clients tend to favor "package solutions". These packaged solutions base themselves on certain management concept, appearing more tested and proven. Furthermore consultants have better chances on convincing clients of the value of a certain product rather than trying to sell their advantages as they are. This could be compared to any other product. For example, selling a plate is much more easier when you add value through packaging and branding rather than just promoting it for its function.

In order to turn a management concept into a management fashion, a public discourse of the concept, an article or such, is often needed to initiate the process. These disclosures gain fame when e.g. big management magazines present the basic ideas behind the concepts to the public, as these magazines provide scientific legitimacy for the fashions. Consultancies organize seminars and congresses, as they are regarded as excellent advertising for these, sometimes complex services. (Kipping, M, 2002: 167-170)

## 5.2 General fashion theory

Management fashion is a certain type of fashion. The idea of this chapter is to illustrate other sociological fashion theories in order to explain the rise and fall of management fashions, and the roles which consultants take in this process.

General theories can be divided into four main paradigms: trickle-down theories, collective selection theories, marionette theories and ambivalence theories. Trickle-down theory relies on a simple assumption: Lower social class imitate the higher social class, there by forcing the higher class to change their style, in order to re-establish the old differences between the classes. Just when the lower class begins to copy the upper class style, upper class turns away from this style and adopts a new one. This keeps the division between the classes same and differentiates the upper class from the masses. Lower class will soon start to follow the new style, thus keeping the cycle running. These fashion dynamics do not only develop between the classes positioned at the extreme ends, but also between adjacent upper middle classes, as upper middle class perceives their status quite insecure, the fashion chase tends to be fierce. Nowadays, it is believed that fashions can trickle up and across any groups. This forces the first adopters to change and invent new fashions, which will differentiate them from the imitators. (Kipping, M, 2002: 170-173.)

In collective selection theories fashion performs in three ways. First "*It introduces order in a potentially anarchic and moving present*". Secondly: "It serves to detach the grip of the past in a moving world" Third: "*Fashion operates as and orderly preparation for the immediate future. By allowing the presentation of new models but by forcing them through the gauntlet of competition and collective selection the fashion mechanism offers a continuous means of adjusting to what is on the horizon*" Thus, following fashion offers an individual some means to control his or hers environmental conditions. (Kipping, M, 2002: 170-173.)

In marionette theories, fashion is perceived as the natural result of capitalist economy. Fashion serves as a fictitious advantage where real advantages can not be achieved. Producers increase the customers tendency to buy, by adding small modifications to the product making the old product out of date and less modern, even tough its not worn out. Entrepreneurs give their products the appearance of a product, which would

be consumed by a socially higher class of people. This is done in order to appeal to the pride, which makes the common man to wear similar clothes as a richer person. The Marionette theory is quite close to trickle-down theory as the fashion loses its value when it is imitated in inferior quality. In the marionette theory, the producers manipulate customers through advertising and the mass media, thus the name “marionette theory”. This is why “*fashion is capitalism’s favorite child*”. (Kipping, M, 2002: 170-173.)

Supporters of ambivalence theories point out that, “Present times are characterized by a climate of cultural ambivalence in the sense of mixed emotions and expressions. When cultural ambivalence increases so will the variety of clothing styles in the free market system. Ambivalence theories emphasize that in the long run, as fashions go out of date quickly and new ones rise, they do not reduce, but may even aggravate problems that arise when clear social classes are lost. (Kipping, M, 2002: 170-173.)

One can assume that just like in traditional fashion, managers want to differentiate themselves from other managers by appearing as innovative and active as they can in the eyes of top management and other relevant observers. Adopting management fashions has less risk than inventing a totally new strategy, while rising their chances of promotion. When adapting a management fashion, managers do not gain social satisfaction, but rather feel inwardly supported by the people who are striving for the same results. Consultancies who strive to gain growth, market share and profit can be compared to the producers in marionette theories, as they appeal to their consumers by adding new modifications to their product. One of their favorite arguments is to categorize their products as “Best practice” i.e. the practices that the biggest and most famous companies use. (Kipping, M, 2002: 170-173.)

### 5.3 Transaction theory

The purpose of the transaction theory is to explain why certain activities, products or services are carried out internally in firms, while others are bought and sold at the marketplace. The following definition is not perfect, but will shed light on the reasons why management consultancies exist and why companies do not perform these activities themselves. (Canbäck, S, 1998: 20-21.)

A company's costs can be divided into two categories: Production costs and transaction costs. Production costs are those that are directly associated with productive activities, such as logistics, manufacturing and product development. Transaction costs are costs connected to the organizing economic activity, thus varying with different organizational forms. Transaction costs define what is done in the market, what price as regulating mechanism and what is done inside the firm, with bureaucracy as regulator. Within this structure, all transactions carry a cost, either as external cost or an internal bureaucratic transaction cost (Such as the cost of coordinating activities within firms). (Canbäck, S, 1998: 20-21.) If transaction costs did not exist, the most profitable company would also be the largest one, since coordination's between the different functions would be effortless (Canbäck, S, 1998: 31). The maximum size of the firm is reached when the costs of organizing additional transactions or activities within the firm exceed the cost of carrying out the same transactions or activities through the market. Thus, for a company, whose core activities are not management consultancy services, the cost of organizing, executing and developing management consultancy activities internally, is higher than simply buying the services from the market. (Canbäck, S, 1998: 20-21.)

A rough estimate is that at least 45 percent of the gross national product (GNP) in society is developed by transaction costs, with the biggest increase in bureaucratic costs, in other words internal costs (Canbäck, S, 1998: 31). As a consequence, executives today primarily deal with transaction costs and especially with internal transaction costs, instead of production costs. Bureaucratic transaction costs consist of components such as the cost of administration and the costs of resource misallocation. To minimize these costs, different management techniques are used to reduce organizational slack such as excessive bureaucracy. Furthermore, market transaction costs derive from price determination, contract negotiation and the risk that there will be deviations from the contract due to unanticipated events. To minimize these costs, market and competitive information is needed. Management consultants have been able to gain it rapidly due to the nature of their work. (Canbäck, S, 1998: 34-35.)

## 6. Management consulting in practice

The next chapter will provide general overview of the practical issues when hiring consultants and in what kind of roles consultants can be used. Furthermore, it illustrates some hints and tips how to get value from your perhaps already hired management consultant.

### 6.1 Consultants activities

The first step of a consultant is to identify and/or investigate the problems related to strategy, policy, markets, organization, procedures or methods. This is done often by interviewing the client. Sometimes the client has already identified the problem, but does not know the solution or cannot execute it by him/her self. The second step is to formulate propositions for course of action by implementing different analysis and investigation. This proposal will be then presented and discussed with the client in order to agree what the final course of action will be. Once agreement is made, the consultant will help to implement these recommendations, or in some cases carry out the actions by him/her self. (Curnow, B & Reuvid, J, 2003: 17-19)

Depending on the action required, a consultant can decide what kind of a role he or she want to take, in order to match the requirements of the previously agreed actions. A model of "1+7" has been identified, where the consultant is recognized as being primarily an expert of the consultancy field but there are seven other roles where the consultants are experts within the field of consultancy. Often one consultant is an expert of a certain role while other people within the consultant firm are experts in other roles. These seven other roles are:

*Researcher:* Requires a lot of skills in communication, presentations, recording of data and comprehending quantitative and qualitative information.

*Executive:* The managerial role when the consultant has most of the responsibility and needs to push projects trough for the client

*Tutor:* The consultant takes the role of a counselor in order to help a client to understand a problem through questioning, listening, answering and understanding. These sessions are often referred as coaching sessions.

*Powerbroker.* This kind of a role requires the consultant to gain sources of power within the client organization, in order for the project to be successful.

*Educator.* Also known as trainer allows individuals to gain knowledge or new skills through clear learning objectives and by using problem based learning.

*Conciliator.* Gets people who have not been able to work together before to work together for the benefit of the company.

*Synergist.* Enables individuals who can work together to find new talents and methods within themselves. (Curnow, B & Reuvid, J, 2003: 17-19.)

## 6.2 Selecting a management consultant

When choosing a consulting firm, the personality of the consultant and the chemistry between the lead consultants and the client are the most influential things that affecting the final choice. Clients often have lists of consultancies they know or might even have used before. Even so, the brand name will only get the consultant in the door, but the consultant with the best presentation and proposal will often win the assignment. Sometimes even the best suggestion will not get the assignment, as there might be personal ties between the other consultants and the client. Social ties such as friendship or the consultant might be the clients ex-colleague as many managers change their profession to consultants. However, in most cases consulting projects are assigned through personal introductions where presentations are held, and proposals are shown to the client. These pitches give clients the opportunity to change their mind about who is to do the project. (Curnow, B & Reuvid, J, 2003: 162-163.)

Choosing the right partner for the project is one of the most important parts, as the result of consulting can not be evaluated totally beforehand. This problem will be described in more detail later in this thesis. According to Curnow, B & Reuvid, J (2003: 162-163), as large corporate purchasers are concerned, a good presentation by consultants can compensate for poor proposal, but a mediocre presentation cannot be compensated with an outstanding proposal. On the other hand, my experience from the consulting field does not fully match this statement. According to my experience, the proposal of the solution and the person who is going to conduct the solution matters

the most. The proposal must match the need of the client, and if its done well enough, clients will often be satisfied enough to buy from that consultant.

Some consultants will put a lot of effort and thought into a competitive pitch and try to offer added-value services that will go beyond the client's expectations. Clients often appreciate this, but it tends only to work when the basic proposal has been accepted, objectives have been clearly met, and only then in the context of a long relationship with a particular client. One of the reasons for this is, that these value-added services do not come for free, and clients are hesitant to pay extra if the does not match their current need. (Curnow, B & Reuvid, J, 2003: 162-164.)

When meeting with the consultants, each consultancy firm should be provided with the same information of the problem and an opportunity for informal questioning and discussion. This is done in order to give all consultants an equal standing ground for the written proposals. Furthermore, when giving the consultants the same information, the client can compare the written proposals and decide which has best fulfilled the need as the written proposal goes often hand in hand with a consultant's competence and experience. Meetings also help consultants to get a feel for the company as a whole, as consultants get to see "inside" the company. The proposal should be assessed together with the impressions gained from face-to-face meetings. It is best, if the client can arrange time together with the key people chaired by the commissioning client for the consultants to come and present their proposals, as immediate clarification of any problems is available. If a meeting is not possible, the clients should be able to reach the consultants if any further questions rise. A proper written proposal should cover following issues:

- Consultant's perception of the problem, suggested objectives and other thoughts bearing on a successful outcome of the project.
- Consultants general approach and proposed working style.
- A schedule of work specifying technical components of the project and how they fit together:
  - o Clear phases of the project, with proposed benchmarks for reviewing and adjustments.
  - o What will be delivered at each stage and what the desired outcome will be
  - o What will be required from the client's internal sources.



- How the project will be managed and how communication is done with the client
- What reports are required of the project.
- Total expenses of the project, preferably broken down by event and activity
- Who will manage the project, consulting team and their roles, their relative proportion of time usage to the project and their CV's
- Relevant references of past experience.
- Terms of business.
- A short summary of the key points of the written proposal.

After assessing all the proposals, the client should select the consulting firm, whose general competence, methodology and style are most appropriate for the project at hand. Client also has to take into consideration the credibility of the company, in order to make sure that the consulting company can provide the agreed services. Here is a small check list that can be used to check if all the important issues are thought through, before signing the actual contract:

- A clear purpose and specific objectives that are tested internally and with various consultants
- Awareness on the part of the client and consultants of the issues bearing on the design of the project
- Framework for project design and management.
- Orderly appointment procedure, so that decisions can be made.

(Curnow, B & Reuvid, J, 2003: 166-170.)

When it comes to management of the consulting process, the security of the "contract" must be clear. What needs to be done, how it should be done, and who are the parties involved need to be written down in order to secure successful outcome. When an agreement on these issues has been made, the consultant counts how many days it will take to complete the project. The days will be then multiplied by their fee rates. The amount of work required in order to achieve the desired outcome in a project varies. Some consultancies are unwilling to specify their daily rates, without any indication of what the actual assignment will be. (Curnow, B & Reuvid, J, 2003: 171-172.)

When comparing prices, it is important to compare the prices as a whole. A training consultant charging 3000€ per training day, including preparation time, might not be more expensive than management consultant charging 1000€ per day, but charging

actual time spent on the preparation and design of the training, as preparation can be very time consuming. The nature and requirements of the project vary, so will the prices. Some consultancies might be able to keep the costs down by for example assigning a junior consultant to handle important board level discussions. Even though the price may be cheaper, the experience and “weight” that the junior can offer, is often much less compared to a senior consultant. The client’s need dictates the different requirements and applications. (Curnow, B & Reuvid, J, 2003: 172.) If the price seems to be too high the client might be able to get it down by negotiating or by narrowing the scope of the project or having their own personnel do some of the work. Even so, it is good to point out that a good job is worth its cost where as poor one is a loss no matter how “good” the price is. (Curnow, B & Reuvid, J, 2003: 176.)

### 6.3 Gaining value from management consultant

Unlike other services management consulting is distinguished by its qualities that are less tangible, or at least appear to be so. In many cases the fee must be paid before the project even begins. This brings us to the question, how can managers make sure that the company gets the proper results, services and support that it is paying for. First you need to make sure that you are using a management consultant for the right reason. These reasons can be:

- To formulate an objective
- To receive an informed opinion
- To find a way to solve a problem (related to the consultants knowledge)
- To get someone to help you with an implementation

Management consultants should not be used to “shake things up”, support preconceived point of view or make the decisions for your firm, as these do not bring additional value to the company.

Before meeting with the management consulting company, one should define the problem clearly enough, so that it can be thoroughly explained to the consultant. Determine what you want the consultant to do and how much you want your own staff to be involved. Of course, the participation of your staff is mandatory, if the problem/need involves training of the employees. During the first meeting with the consultant one should ask if the consultant:

- Listens well
- Knows about your industry (Not necessary in all cases)

- Understands the key issues
- Focuses questions on the problem
- Challenges assumptions
- Offers relevant approach
- Seems trustworthy ect.
- Seems enjoyable to work with (Sometimes the selling consultant is not the one to implement the solution)

Consulting is often done between individuals working together to solve a problem. By conducting an interview with the client, the consultant tries to understand the clients perception of the problem, tell what can be done to solve it and verify clients expectations. After the meeting, the consultant should send the client a letter of agreement (Proposal) stating the following:

- Objective, scope and the nature of the assignment
- Summary of the situation
- Suggested strategy
- Potential benefits generated from the project
- Names and qualifications of the implementing consultants
- Nature of the client staff participation
- Suggested start and end dates of the project
- Fees and expenses

(Curnow, B & Reuvid, J, 2003: 174-175.)

The client can evaluate the proposal by asking some simple questions:

- Has the real issue been addressed and does it mach the problem?
- Are the recommendations logical?
- Are the steps clear?
- Will the company be stronger as a result?
- What are the potential savings or improvements that will be gained?

(Curnow, B & Reuvid, J, 2003: 177.)

If the proposal is accepted and the project is started, the client company's person in charge should inform the parties involved that there is a consultant working and what the consultants role and assignments are. Furthermore, telling what the consultant will be doing helps to minimize spreading any rumors spreading. Furthermore, the client should make sure that the recommendations are put into effect immediately, before

they are lost in the organizational inertia of the company. (Curnow, B & Reuvid, J, 2003: 176-.)

#### 6.4 Managing the consultancy project

At first, it may seem odd that the client calls in a consultant to help in a certain problem, when at the same time while depending on the consultant, the client must manage him/her. This might come as a surprise to a client who has no previous experience of using management consultants. Even so, it is an important part of the consulting process. The client needs to manage their side of the relationship in order for the consultant to be effective and strive for the desired outcome. Showing the work in phases is a good way of managing the assignment as it shows who is involved in each phase and when. It helps the client to manage the consultant and the consultant to manage the client by illustrating the next stage ahead. At each stage it is mandatory not just to manage the activities but also to identify the results that each party is expecting. This can be done in a client-consultant steering group, which should be held regularly. Especially in these steering groups, it is important to take different personalities into consideration as they will play a role in the managing process of the project. It is best to adjust your own personality to acknowledge what they need to be active in the project. Just like in any business relationship, managing consultants includes achieving trust, honesty and openness. These are usually gained over a period of time, but if time is of the essence, it is still important that the previously mentioned traits are achieved. Even if the relationship is special and required sensitivity and confidentiality, time is still needed to form a relationship that can be managed to its full potential. When the client and consultant work together in partnership, the reporting should be recorded and included in the management process at all times. The most important part of this is the need not to anticipate the effect but also actively plan how to make the project itself successful. (Curnow, B & Reuvid, J, 2003: 179-184.)

Management consultants are now essential in running modern businesses. They have become an important resource in most organizations and therefore they need to be managed just like any other resources in order to ensure the best results, outcomes and benefits to the client. This might seem self-evident, but yet most management consulting engagements fail due to bad managing and not because of bad implementation, execution or design. (Curnow, B & Reuvid, J, 2003: 179-184.)

## **7. Problems of management consulting**

The reputation of the consultancies is powerful and evocative in the media. Perceptions of what people think consultants do and the reality often differ. In many cases consultants are seen as influential, powerful and quite shadowy figures, influencing companies and decisions that they do. The leaders of some of the most fashionable consultancies have been referred as the most influential people in different societies and within the international business community. (Curnow, B & Reuvid, J, 2003: 78.)

Due to the integration of management consultancy with information technology companies in the past decades, many clients have started to ask if they can trust the consultants. The questions was suddenly answered with the revelations of the conflict of interest ignored by Enron, that resulted in Enron's and its auditors, Arthur Andersen's bankruptcy in 2001. Arthur Andersen was billing \$50 million divided between the consulting and auditing. (Curnow, B & Reuvid, J, 2003: 78.) Apparently, the self-serving interests of senior Enron executives were condoned by the behavior of the auditor, whose massive annual audit fees were matched by the fees charged in consultancy. Furthermore, taxation advice was given that helped Enron to avoid income tax between the years 1995 and 2001. The impact on the reputation of the accountancy industry was catastrophic. Multinational clients fled and Arthur Andersen went to bankruptcy and disappeared from the face of the earth in less than 12 months. On the other hand the Accenture consulting arm that had emerged earlier, had established itself in the marketplace and was untouched.(Curnow, B & Reuvid, J, 2003: 81-82) The collapse of Enron led directly to the downfall of Arthur Andersen, and to the US authorities requiring that consulting arms and audit work must be separated. (Curnow, B & Reuvid, J, 2003: 78)

There have definitely been some disappointments among clients when it comes to the large consulting firms. Having said that, the focus of their disappointments has changed. Clients have started to mistrust young, highly educated, but still often inexperienced consultants who promote standard process-based solutions. Now, that the regulators fears had realized and the evidence of conflict of interests shown, clients had to start to be more careful and particular about the choice of consultancy. They actually

had to start manage the consultancies they were doing business with in order to have control over their doings. Other areas of disappointments are:

- Lack of accountability on the part of individuals working for the consultancy companies. The result is that there are times booked for the job that cannot be totally justified, which increases the consulting fees.
- Lack of accountability for reasonable expenses: Some consultants might use five-star hotels, first class flights and expensive restaurants, as the client is unknowingly paying the bill.
- Lack of transparency on the part of the consultancy and its billing process. This can lead to long investigations and reports, which take the consultant's and the client's time.

(Curnow, B & Reuvid, J, 2003: 82)

In some cases, when poor practices have occurred, it has revealed upon investigation that the firm in question is not a member of any formal body and thus can escape professional sanctions. Even the more ordinal compensations to correct the inadequate work, may be unavailable, thus some clients require that the firm they are hiring is a member of the MCA or IMC, which allows sanctions to be applied through the appropriate body. The IMC has moved to introduce more transparent sanctions against law-breaking members by inviting important individuals (not management consultant professionals) to play part in the disciplinary procedures as this is seen as a mean to protect the public. If the client suspects misconduct, they should contact the IMC or/and the MCA in order them to determine what rectifying means are open to them. On the other hand, an appeal to the IMC or MCA will not necessarily prejudice the client to damages, and as always it depends on the circumstances. The position will vary in different countries and clients should always contact the local management body for guidance. (Curnow, B & Reuvid, J, 2003: 85)

### 7.1 Accenture And the Finnish patient information system

The double role of the consultant company Accenture in the future patient information system was discussed in Helsingin Sanomat (HS) 8<sup>th</sup> of July in 2012. The evaluated cost of the new patient information system was estimated up to 1.8 billion euro. The Finnish Innovation Fund Sitra started a project called Sirius to help in the decision making process which patient information system should be chosen. The most vital part of

the project Sirius, was the evaluation ordered from Accenture, which tried to shed light on which system would be the most appropriate for the Finnish healthcare system. Accenture ended up recommending two different systems. Both were from United States. One was called Cern and the other one was a system called Epic with the highest reviews. After the publication of the review, it was found out that Accenture had connections to Epic. Accenture had been seen for example marketing Epic in various healthcare industry events. According to Sitra's director Antti Kivelä, Sitra had no information of the connections between Accenture and Epic at the time the evaluation was done. Accenture's executives refused to answer any questions concerning if Accenture had recommended almost € 2 billion deal which included a system that gave the company itself a market leader position in Finland. (Peltomäki, T, 2012)

HS tried to reach Accenture's executives, but all questions were passed to the communications department where Hetta H. told HS that Accenture does not have exclusivity in Finland providing Epic's information systems. Other questions Hetta Huittinen could not answer. After trying to reach the headquarters of Accenture in United States for a few days, the company sent an open letter saying that part of Accenture's and Epic's cooperation does include Accenture working in Finland as a designer and executor for Epic systems. Project Sirius ended in January 2011 and according to Accenture and Epic, their cooperation started in February 2012. This might not have been the case, as their cooperation seems to have started earlier in November 2011. In the marketing event held by Epic in November 2011, Sanna Hauslahti the board room member of hospital district of Helsinki and Uusimaa, was present, presented on request by HS the invite, showing that one of the inviters to the event was indeed Accenture. HS requested a new statement from Accenture, who then replied saying that they have been marketing Epic and Cern since spring 2011. The actual partnership with Epic they started to "pursue" in after May 2011.

The importance of the project Sirius to the decision making process and tendering of the patient information system is unknown. Several experts still consider the Sirius project to be influential, when counties do their own decisions related to acquisition of new patient information systems. Fortunately, the report does not directly result in €1.8 billion acquisitions from Epic Systems and Accenture. (Peltomäki, T, 2012)

The problem with consulting companies having double roles, is that their objectivity, especially the objectivity of their advice, comes automatically under suspicion. Once clients and other people realize this conflict of interests, the consulting company's re-

spect in the market decreases which might lead to losses in sales. On the other hand, as many consulting companies have extensive networks of contacts due to the nature of their industry, sometimes it can be very hard to spot as a client, where conflict of interest may rise. Situations like the one described earlier do not always see the daylight, as a consultant's double role may be unofficial. By this I mean that the consultant might have a friend or a relative working in a company, thus the consultant is more eager to recommend his/her friend's company to other companies. These kinds of relationships are not "official", but still often affect individual consultants in their work. Depending on your standpoint this can be either good or a bad thing. What comes to "official" relationships, even the different departments in multinational consulting organizations might not know that their company is somehow connected to another company, as the company reaches far beyond national borders.

## 7.2 Finnish Transport Agency

Sometimes these "unofficial" relationships are unveiled. When that happens, they are often met with great criticism. The most recent example of unofficial relationships affecting the decision making process is the example from the Finnish Transport Agency (FTA), published in Helsingin Sanomat 16<sup>th</sup> of October .2012. Finnish Transport Agency bought a renewal plan of its organization from a small IT-consulting company. The CEO of the company was an ex-employee of the Finnish Transport Agency's chief executive officer. FTA has a rule that any purchases over 20,000€ must be tendered. The purchase in question was 30,000€ in value. The reasons behind not tendering, were explained vaguely, but the main arguments were the IT-company's expertise and know-how. According to the Office of the Chancellor of Justice (OKV) such budget crossings are so serious that OKV started investigating it on its own. According to Kimmo Hakonen, chief of staff, the inquest does not only concern this individual case but the budget usage as a whole.

The previously mentioned case is a good example of how unofficial relationships may start large investigations. Not only do individual mishaps make authorities investigate that specific situation, but the whole organization. As unfortunate as it seems, often these investigations reveal other insufficient procedures. Like in the case of Finnish Transport Agency, Juhani Tervala the CEO of FTA, resigned, due to the lack of trust between him and Merja Kyllönen the Minister of transports, According to Merja Kyllönen, there was not a specific incident that lead to the resignation of Tervala, but the resignation was a result of obscurities over the last few years. According to Kyllönen,



this was not the only case where additional clarifications had to be made. (Helsingin Sanomat, 16.10.2012)

### 7.3 AT&T And the price of Advice

For one of the biggest telecommunications company the price of advice was very high. Between 1989 and 1994 it paid its key management consultants almost half a billion dollars. The amazing thing is not the size of the number as AT&T is a large company, back in the 90's it had an \$8 Billion annual cash flow and some \$50 billion in assets. The most amazing thing is that AT&T seemed as confused after spending hundreds of millions in consulting, as before the consulting period. It paid consultants millions and millions of dollars to find out what the outsiders thought it should do to pull its self back together, in one of the most competitive businesses on earth. Between 1990-1998, it spent \$20 billion on new acquisitions and \$19 billion on restructuring the company, but nothing seemed to work. AT&T had jumped from an consulting to another house without finding anything that could have helped them to find a plan that would have given it some leadership and stability during harsh times. It went through the whole menu that the management consultants had to offer, everything from process reengineering to right-sizing, only to find itself further and further away from its competitors. AT&T downsized the company by thousands of employees thus showing many long time workers the door. This wrecked the morale of the people who stayed and stained its reputation. (O'shea, J, Madigan, C, 1999: 3-9.)

After some time, AT&T's corporate leaders started to be skeptical about the high fees paid to consultants, but still it gave green light and multi-million dollar checks to some consultants for ineffective work. This breaks one of the most important rules in all consulting engagements: Always know what you want to achieve by using a consultant. The CEO of AT&T at the time, saw that the consultant bill was far to big and that the company was far too dependent of services provided by outsiders. Thus he decided that all decisions of hiring new consultants must go through him. If some one wanted to hire a consultant they must present their case to the CEO. This made a clear statement that useless consulting activities were no longer wanted nor needed. One of the insid-

ers at the time was asked, if the huge consulting bill was worth it. The answer was, that the results were not impressive mostly because of bad management on the behalf of AT&T. There has been a debate why the advice was not taken seriously in the first place. Perhaps the consultants should have presented their case more aggressively and AT&T should have been listening more closely of the important issues. The largest of the issues being what services AT&T should provide to its customers and the second largest being why it wanted to be a computer company instead of a service company, which was its main role in the first place. (O'shea, J, Madigan, C, 1999: 3-9.)

Just to give some figures to comprehend the extent of the consulting done for the AT&T, McKinsey & Co. alone collected USD96 million with its biggest check coming in 1992 when AT&T paid McKinsey & Co USD30 million. Monitor, which is Michael Porters Harvard-connected strategy consulting company, collected total of USD127 million from 1991 to 1994, collection over USD58 million of that amount in 1993. Andersen Consulting, the fastest growing consulting company at the time collected a total of \$87 million over a time period of four years of which USD39 million in 1992 and USD36 million in 1993. So what was AT&T buying? Basically everything the consultancies were offering. For example it cost \$250 000 to keep the McKinsey consulting team on the site for one month. AT&T paid McKinsey \$4 million in 1989 alone, just to have one of the McKinsey teams on site. Unfortunately most of the consultant agencies were hesitant to answer any questions related to their customers, as especially McKinsey and Monitor have created cultures which make them more like law firms than consultancies, with secrecy and "client privilege" being dominant themes in both companies. This has a legitimate purpose as clients do not want their secrets to be revealed but it also gives a good excuse not to talk about anything that might be uncomfortable. (O'shea, J, Madigan, C, 1999: 3-9.)

Despite all the expenditure, no consultancy was able to lead AT&T to success. At best the consultancies were able to push the company through the mud created by the re-sizing of the company. All this raises a question if the consultants collected a lot of money for good advice that was never taken seriously, or did AT&T follow the instructions that turned out to be poor ones. A former insider of AT&T thinks that it was more likely that the consultants gave them good advice, but AT&T failed to carry them out properly. Another option is that the company was asking too peripheral questions instead of the questions that really matter. (O'shea, J, Madigan, C, 1999: 3-9.)

Perhaps AT&T is just an example of what happens when large corporations try to implement multiple management consulting philosophies of the era, without carrying them out properly. It could be that management consultants were called in to provide cover for executives who did not want to carry the weight of rough decisions. Long time AT&T follower and a professor at the Annenberg School For Communications at the University of Southern California, A. Michael Noll, thinks that consulting is a waste of money and that companies should be looking at their own employees for advice. According to A. Michael Noll the only reason one would hire a consultant is to cover one's own back. When one is punished for doing mistakes, no one wants to make them, so instead of executives taking the responsibility of the decisions, they hire consultants to do it for them. Although, not everyone will agree with the next statement, especially the individuals who work in the field of management consulting. (O'shea, J, Madigan, C, 1999: 3-9.)

The price of advice is indeed as good as gold, at least for the people on the other side of the contract. Consultants have made fortunes selling it and will most likely continue to sell it in the future. On the other hand companies pay a high price when consulting engagements are started without a clear goal. The obvious lesson learned here is, that a company without a clear direction is not going to be saved by group of consultants no matter how many of them there are. (O'shea, J, Madigan, C, 1999: 3-9.)

## **8. Conclusion**

The evolution of management consultancy has been long and will most likely to continue as the usage of information as a good will most likely rise in our society. When needing unbiased third-person opinions and information or help in other tasks than the company's core competencies, external help such as management consultants can bring additional value due to their large network and information they have gained from working with other companies. They do not only recycle old ideas, but make their own tools and methods. Furthermore, the activities of consultants are very wide, which makes them suitable for many problems and occasions.

When meeting with the consultants it is worth noting that clear communication and good presentation of the problem is needed in order for the consultants to estimate the need and the proper actions needed to solve the problem.

Although the thesis is not perfect, it can be stated that it gives an overall look to the management consulting industry and to its practical side. One way to make it better, could have been to get a real life example of how management consulting companies really approach their customers. By following through the whole process, from the first meeting to the last summary of the project would have given another and perhaps more practical perspective to the management consulting world. Although no universal-ly compatible conclusion could have been made, as management consultancies tend to have multiple ways of working and interacting with the client.

Even with the possible problems, it can be said that the usage of management consultants can be useful in certain occasions, especially when both sides of the deal are working with good ethics and using the best practices. It is important that consultants are used to the right purposes and only to solve a problem, not as an tool to help executive dodge responsibility of hard decisions. That being said, proper guidelines and restrictions for the consulting is necessary to keep any excess mishaps under control.

Of all the businesses, by far  
Consultancy's the most bizarre.  
For to the penetrating eye,  
There's no apparent reason why,  
With no more assets than a pen,  
This group of personable men  
Can sell to clients more than twice  
The same ridiculous advice,  
Or find, in such a rich profusion,  
Problems to fit their own solution.

(*Bernie Ramsbottom*, Financial Times, 11 April 1981; quoted in Canbäck,. 1998)

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